

Shear Minerals Ltd.

(a development stage company)

Interim Consolidated Financial Statements

For the three and nine months ended August 31, 2010

(Unaudited)

To the Shareholders of Shear Minerals Ltd.:

The interim consolidated balance sheet of Shear Minerals Ltd. as at August 31, 2010, and the interim consolidated statements of operations and deficit and of cash flows for the periods then ended have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

Shear Minerals Ltd.

Interim Consolidated Balance Sheets

Nature of operations and going concern (note 1)

	August 31, 2010 (unaudited)	November 30, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 10,233,746	\$ 125,660
Short-term investments	14,778	98,471
Accounts receivable	123,414	46,693
Operator recoveries	208,225	5,099
Prepaid expenses	-	21,592
	10,580,163	297,515
Plant and equipment (note 6)	1,431,485	62,358
Mineral properties (note 7)	7,179,678	4,983,602
Restricted deposits (note 8)	9,327,742	36,711
	\$ 28,519,068	\$ 5,380,186
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 847,132	\$ 893,423
Deposits from exploration partners	8,270	8,270
Note payable (note 5)	454,944	-
Derivative financial instrument (note 9)	-	43,375
	1,310,346	945,068
Secured notes (note 10)	1,785,283	-
Asset retirement obligation (note 11)	5,140,193	-
	8,235,822	945,068
Shareholders' equity		
Share capital (note 12(a))	42,724,149	30,209,679
Contributed surplus (note 12(d))	7,812,759	2,954,620
Deficit	(30,253,662)	(28,729,181)
	20,283,246	4,435,118
	\$ 28,519,068	\$ 5,380,186
Approved by the Board of Directors		

Signed "Pamela Strand" _____ Director

Signed "Julie Lassonde" _____ Director

Shear Minerals Ltd.

Interim Consolidated Statements of Operations and Deficit (unaudited)

	Three months ended August 31,		Nine months ended August 31,	
	2010	2009 (Restated – note 3)	2010	2009 (Restated – note 3)
Revenue	\$ 28,348	\$ 25,938	\$ 39,600	\$ 27,322
Expenses				
Exploration (notes 3, 13 and 15)	481,384	144,236	1,389,271	439,179
General and administrative (note 15)	46,273	29,260	142,972	176,192
Management fees (note 15)	43,954	7,138	68,208	27,282
Professional and consulting fees (note 15)	18,424	27,064	84,119	103,440
Amortization	5,692	11,553	21,667	34,659
	595,727	219,251	1,706,237	780,752
Loss before the following	(567,379)	(193,313)	(1,666,637)	(753,430)
Gain on disposal of equipment	-	-	9,805	-
Loss on disposal of short-term investments	(11,400)	-	(4,171)	-
Unrealized gain (loss) on short-term investments	10,334	52,635	(17,923)	58,841
Unrealized (loss) gain on derivative financial instrument	-	(65,063)	43,375	(65,063)
Write-down of mineral property (note 7)	-	(189,976)	(98,669)	(164,976)
Net loss before income tax	(568,445)	(395,717)	(1,734,220)	(924,628)
Future income tax recovery (note 12(a))	-	-	209,739	654,427
Net loss and comprehensive loss	(568,445)	(395,717)	(1,524,481)	(270,201)
Deficit – beginning of period	(29,685,217)	(27,512,097)	(28,729,181)	(27,637,613)
Deficit – end of period	\$(30,253,662)	\$(27,907,814)	\$(30,253,662)	\$(27,907,814)
Basic and diluted loss per share	\$ (0.004)	\$ (0.004)	\$ (0.011)	\$ (0.002)
Weighted average number of common shares outstanding	155,064,593	112,099,484	142,910,864	110,202,273

Shear Minerals Ltd.

Interim Consolidated Statements of Cash Flows (unaudited)

	Three months ended August 31,		Nine months ended August 31,	
	2010	2009	2010	2009
		(Restated – note 3)		(Restated – note 3)
Cash provided by (used in)				
Operating activities				
Net loss for the period	\$ (568,445)	\$ (395,717)	\$ (1,524,481)	\$ (270,201)
Items not affecting cash:				
Write-off of operator recoveries	-	92,952	-	246,444
Amortization	5,692	11,553	21,667	34,659
Stock-based compensation	-	-	-	9,166
Gain on disposal of equipment	-	-	(9,805)	-
Loss on disposal of short-term investments	11,400	-	4,171	-
Unrealized (gain) loss on short-term investments	(10,334)	(52,635)	17,923	(58,841)
Unrealized loss (gain) on derivative financial instrument	-	65,063	(43,375)	65,063
Write-down of mineral property	-	189,976	98,669	164,976
Future income tax recovery	-	-	(209,739)	(654,427)
Net change in non-cash working capital (note 14(a))	(159,541)	28,597	(9,376)	(1,054,994)
	(721,228)	(60,211)	(1,654,346)	(1,518,155)
Financing activities				
Issue of shares	13,113,838	-	14,198,404	1,688,250
Share issue costs	(842,727)	-	(916,056)	(124,642)
	12,271,111	-	13,282,348	1,563,608
Investing activities				
Acquisition (notes 5 and 14(b))	(1,562,255)	-	(1,562,255)	-
Mineral property acquisition costs	(5,274)	(10,567)	(33,049)	(24,534)
Recovery of mineral property acquisition costs	-	-	15,422	78,279
Proceeds on disposal of short-term investments	7,380	-	61,599	-
Purchase of equipment	-	-	(1,503)	-
Increase in restricted cash	-	-	(130)	(363)
	(1,560,149)	(10,567)	(1,519,916)	53,382
Increase (decrease) in cash and cash equivalents	9,989,734	(70,778)	10,108,086	98,835
Cash and cash equivalents – beginning of period	244,012	302,258	125,660	132,645
Cash and cash equivalents – end of period	\$ 10,233,746	\$ 231,480	\$ 10,233,746	\$ 231,480

Non-cash financing and investing activities (note 14(b))

Shear Minerals Ltd.

Notes to the Interim Consolidated Financial Statements
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(unaudited)

1. Nature of operations and going concern

Shear Minerals Ltd. (the "Company" or "Shear") is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable and the Company is not presently carrying on active exploration efforts on certain of its mineral properties.

These unaudited interim consolidated financial statements (the "financial statements") have been prepared using Canadian generally accepted accounting principles applicable to a going concern. As set out below, there are several adverse conditions that cast significant doubt on the validity of this assumption. The Company has no source of operating cash flow and reported a net loss of \$1,524,481 for the nine months ended August 31, 2010 (2009 (restated – note 3) - \$270,201) and an accumulated deficit of \$30,253,662 at August 31, 2010 (November 30, 2009 - \$28,729,181). To date, operations have been funded primarily from the issue of share capital.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by private placements of shares. There is no assurance that the Company will be successful with any financing ventures. The Company is dependent upon the continuing financial support of shareholders and obtaining financing to continue future exploration of its mineral property interests. There is no assurance that any funds that will ultimately be available for future operations.

These financial statements do not reflect any adjustments to the carrying values and classification of assets, or the amounts of and classification of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The amounts shown in note 7 represent net costs to date for property acquisition (including mineral claims and permits), less amounts written off, and do not necessarily reflect fair values. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

2. Basis of presentation

These financial statements are prepared in accordance with generally accepted accounting principles for interim financial statements and do not include all of the disclosures normally contained in the Company's annual financial statements. Since the determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of

Shear Minerals Ltd.

Notes to the Interim Consolidated Financial Statements For the three and nine months ended August 31, 2010 (unaudited)

management, these financial statements have been prepared within reasonable limits of materiality. These financial statements follow the same significant accounting policies as described and used in the most recent annual financial statements of the Company for the year ended November 30, 2009 and should be read in conjunction with those annual financial statements.

These financial statements include the accounts of the Company and its wholly-owned subsidiary Shear (Diamonds) Nunavut Corp., which was created to facilitate the acquisition from Tahera Diamond Corp. and Benachee Resources Inc. of the Jericho Diamond Mine and processing facilities and all supporting exploration assets (note 5).

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

3. Change in accounting policy

During the year ended November 30, 2009, the Company changed its accounting policy for exploration expenditures to align itself with policies adopted by other exploration stage mining companies. The Company's previous policy was to capitalize all such costs to mineral properties and only write-down capitalized costs when the property was abandoned or if the capitalized costs were not considered to be economically recoverable.

Exploration expenditures are now charged to earnings as they are incurred until the property reaches the development stage. All direct costs related to the acquisition of mineral property interests will continue to be capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves. The Company has accounted for this change in accounting policy on a retroactive basis.

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The impact of this change on the previously reported interim financial statements for the three months ended August 31, 2009 is as follows:

	As previously reported	Adjustments	As restated
Statement of operations and deficit:			
Exploration of mineral properties	\$ -	144,236	\$ 144,236
General and administrative expense	33,759	(4,499)	29,260
Professional and consulting fees	26,554	510	27,064
Write-down of mineral property	(837,605)	647,629	(189,976)
Future income tax recovery	222,641	(222,641)	-
Net loss and comprehensive loss	(680,458)	284,741	(395,717)
Deficit as at May 31, 2009	(7,646,795)	(19,865,302)	(27,512,097)
Deficit as at August 31, 2009	(8,327,253)	(19,580,561)	(27,907,814)
Basic and diluted net loss per share	(0.006)	0.002	(0.004)
Statement of cash flows:			
Cash used in operating activities	(90,769)	30,558	(60,211)
Cash used in investing activities	19,991	(30,558)	(10,567)

The impact of this change on the previously reported interim financial statements for the nine months ended August 31, 2009 is as follows:

	As previously reported	Adjustments	As restated
Statement of operations and deficit:			
Exploration of mineral properties	\$ -	439,179	\$ 439,179
General and administrative expense	189,748	(13,556)	176,192
Professional and consulting fees	115,340	(11,900)	103,440
Write-down of mineral property	(812,605)	647,629	(164,976)
Future income tax recovery	303,626	350,801	654,427
Net income (loss) and comprehensive income (loss)	(854,908)	584,707	(270,201)
Deficit as at November 30, 2008	(7,472,345)	(20,165,268)	(27,637,613)
Deficit as at May 31, 2009	(8,327,253)	(19,580,561)	(27,907,814)
Basic and diluted net income (loss) per share	(0.008)	0.006	(0.002)
Statement of cash flows:			
Cash used in operating activities	(330,129)	(1,188,026)	(1,518,155)
Cash used in investing activities	(1,134,644)	1,188,026	53,382

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4. Recent accounting pronouncements not yet adopted

a) International Financial Reporting Standards

The Canadian Institute of Chartered Accountants ("CICA") published the exposure drafts entitled "Adopting IFRSs in Canada" in April 2008, March 2009, and October 2009. International Financial Reporting Standards ("IFRS") will be incorporated into the CICA Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The Company is reviewing the impact on its financial statements of adopting IFRS.

b) Business combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", which replaces Handbook Section 1581, "Business Combinations", and is equivalent to the corresponding standard in IFRS. The new standard expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The Company is unable to determine the impact of this new standard, since it applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted.

c) Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", and Handbook Section 1602, "Non-Controlling Interests", which together replace Handbook Section 1600, "Consolidated Financial Statements". The two new sections are equivalent to the corresponding provisions in IFRS. The standards require all entities to report non-controlling interests as equity in financial statements, and provide additional guidance in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be applied concurrently with Handbook Section 1582. The Company is currently reviewing the standards to determine the impact, if any, on its financial statements.

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5. Acquisition

On August 27, 2010, the Company completed the acquisition of the Jericho Diamond Mine and processing facilities and all supporting exploration assets (collectively, the "Tahera Assets") from Tahera Diamond Corp. and Benachee Resources Inc. (together, the "Vendors").

As consideration for the acquisition of the Tahera Assets (the "Tahera Acquisition"), Shear made a cash payment of \$1,000,000 and issued an aggregate of 80,000,000 common shares on August 27, 2010. The Company also issued a \$500,000 non-interest-bearing unsecured note payable, due August 27, 2011, to Caz Petroleum Inc., the secured creditor of the Vendors. Shear also granted a 2% royalty on all diamonds and minerals in favour of Caz Petroleum Inc., which Shear will have a right of first refusal to repurchase.

The purchase price has been calculated as follows:

Cash	\$ 1,000,000
Common shares	4,000,000
Note payable	454,944
Estimated transaction costs	<u>592,255</u>
	<u>\$ 6,047,199</u>

The value of the common shares issued was based on the average closing price of Shear shares two trading days before, the day of, and two trading days subsequent to the announcement date of July 19, 2010. The fair value of the note payable was estimated based on the present value of the expected cash flows to maturity using the Company's estimated credit-adjusted risk-free rate. Each reporting period, the carrying amount will be accreted to the present value of the principal amount at each balance sheet date, and the accretion will be recorded as interest expense.

The Tahera Acquisition has been recorded as an asset purchase as it does not meet the definition of a business under CICA Emerging Issues Committee Abstract No. 124, "Definition of a Business". The estimated costs were allocated as follows:

Net assets acquired:	
Restricted deposits	\$ 9,290,901
Plant and equipment	1,404,656
Mineral properties	2,277,118
Secured notes	(1,785,283)
Asset retirement obligation	<u>(5,140,193)</u>
	<u>\$ 6,047,199</u>

As a result of the timing of the Tahera Acquisition relative to the Company's reporting schedule, the Company has not yet completed the process of obtaining valuations for the net assets acquired. As a result, the allocation of the purchase price is preliminary and is

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subject to adjustment. The preliminary purchase price allocation is based on management's best estimates of the fair values of the assets acquired and liabilities assumed as at the acquisition date. Upon finalization, adjustments to the initial estimates may be required, and these adjustments could be material.

In conjunction with the Tahera Acquisition, Shear also purchased exploration data for cash consideration of \$500,000, which was charged to exploration expense in the period.

6. Plant and equipment

	August 31, 2010		
	Cost	Accumulated Amortization	Net
Field equipment	\$ 120,362	\$ 101,367	\$ 18,995
Computer equipment	73,985	63,637	10,348
Office furniture	23,231	4,452	18,779
Jericho Diamond Mine	1,383,363	-	1,383,363
	<u>\$ 1,600,941</u>	<u>\$ 169,456</u>	<u>\$ 1,431,485</u>

7. Mineral properties

The following is a continuity of acquisition costs for mineral properties:

	Nine months ended August 31, 2010				
	Opening balance	Additions	Recoveries	Write-down	Closing balance
Northwest and Nunavut Territories					
Churchill	\$ 4,736,838	\$ 732	\$ -	\$ -	\$ 4,737,570
Tahera Properties	-	2,277,118	-	-	2,277,118
Other properties	148,285	27,895	(15,422)	-	160,758
Alberta					
Liege	98,479	190	-	(98,669)	-
Manitoba					
Miskamowin	-	4,232	-	-	4,232
	<u>\$ 4,983,602</u>	<u>\$ 2,310,167</u>	<u>\$ (15,422)</u>	<u>\$ (98,669)</u>	<u>\$ 7,179,678</u>

a) Tahera Properties

The Tahera Properties were acquired in the Tahera Acquisition (note 5) and include: (i) the mineral claims and leases comprising the Jericho Diamond Mine; (ii) a 100%

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interest in the Carat property; (iii) a 50% participating interest in the Polar property in partnership with DeBeers Canada; (iv) a 75% interest in the Rockinghorse property in partnership with RioTinto Canada Exploration Inc., and; (v) selected other mineral claims and leases in Nunavut and the Northwest Territories.

b) Miskamowin

On December 24, 2009, the Company entered into an option agreement with Takara Resources Inc. ("Takara") to acquire an interest in the Miskamowin project in Manitoba. Takara is a related party to Shear by virtue of common directors.

Under the terms of the agreement, Shear earned an initial 25% interest in the mineral rights to the project by incurring exploration expenditures of \$340,000 before January 31, 2010. Shear has a second option to earn an additional 24% interest in the mineral rights to the project by incurring additional exploration expenditures of \$500,000 before December 31, 2011 and issuing 1,000,000 common shares to Takara. The Company also has the option to earn a 70% interest in the diamond rights to specific "targets" on the project by completing drill testing and confirming the presence of kimberlite in the targets.

c) Liege

During the nine months ended August 31, 2010, the Company wrote-off the carrying amount related to the Liege property as the Company did not incur the required expenditures to earn an interest under the terms of the option agreement on the property.

8. Restricted deposits

Restricted deposits consist mainly of funds provided to secure letters of credit in support of various collateral and reclamation bonds posted by the Company as a result of the Tahera Acquisition.

9. Derivative financial instrument

On August 18, 2009, the Company issued a non-transferable covered call option which allowed the holder to acquire 361,461 shares of New World Resource Corp. from the Company at a price of \$0.15 per share. On January 25, 2010, the holder exercised the option and the liability was extinguished.

10. Secured notes

Secured notes having an aggregate principal amount of \$2,289,124 were issued in satisfaction of certain liabilities of the Vendors that were assumed by the Company upon the acquisition of the Tahera Assets. The Company issued a debenture to the note holder

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granting a security interest in the plant & equipment located at the Jericho Diamond Mine and certain of the Tahera Properties.

The secured notes are payable upon the earlier of: (i) August 27, 2016; (ii) the 90th day following the date on which the Jericho Diamond Mine has operated for a period of 30 consecutive production days at an average rate of not less than 50% of design capacity; and (iii) upon written demand for payment as a result of and there being an event of default under the debenture. On the date that the secured notes become payable, interest will begin accruing at 5% per annum.

The secured notes were recorded at their fair values at the date of the Tahera Acquisition, which was estimated to be \$1,785,283 based on the present value of the expected cash flows using the Company's estimated credit-adjusted risk-free rate. Each reporting period, the carrying amount of the secured notes will be accreted to the present value of the redemption amounts at each balance sheet date, and the accretion will be recorded as interest expense.

11. Asset retirement obligation

The asset retirement obligation relates to the Company's closure and reclamation obligations for the Jericho Diamond Mine, and was recognized at the estimated fair value of the obligation at the date of the Tahera Acquisition. The determination of the fair value of the liability assumes undiscounted future cash flows needed to settle the liability of approximately \$9,317,224. These estimated future cash flows have been discounted using a credit-adjusted risk-free rate of 10.39%.

The measurement of the asset retirement obligation requires management to make significant estimates and assumptions regarding the timing and valuation of future site restoration costs, as well as the Company's credit-adjusted risk-free rate. Actual values could differ significantly from these estimates.

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12. Share capital and contributed surplus

a) Common shares

Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

Common shares issued and outstanding:

	Number of shares	Amount
Balance – November 30, 2009	118,993,310	\$ 30,209,679
Issued in private placements	219,510,060	14,198,404
Value allocated to warrants issued in private placements	-	(4,361,024)
Issued in acquisition of mineral rights and related dataset	3,000,000	300,000
Issued in acquisition of Tahera Assets (note 5)	80,000,000	4,000,000
Share issue costs	-	(1,413,171)
Future income taxes on renouncement of qualifying expenditures	-	(209,739)
Balance – August 31, 2010	421,503,370	\$ 42,724,149

In December 2009, the Company issued 4,650,000 units ("Units") at a price of \$0.05 per Unit and 13,108,710 flow-through units ("FT Units") at a price of \$0.065 per FT Unit for total gross proceeds of \$1,084,566.

Each Unit consisted of one common share and one flow-through share purchase warrant ("FT Warrant"). Each FT Warrant entitles the holder to acquire a flow-through share at a price of \$0.10 at any time within 12 months of issue. Each FT Unit consisted of one flow-through share and one-half of a common share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire an additional common share at a price of \$0.12 at any time within 12 months of issue. The Company was required to incur \$838,957 of qualifying expenditures which were renounced to the holders of the flow-through shares effective December 31, 2009. At August 31, 2010, sufficient qualifying expenditures were incurred to satisfy the commitment. The fair values attributable to the common shares, Warrants, and FT Warrants issued were \$935,899, \$99,720, and \$48,947, respectively.

In addition, agents received 645,614 "Agent Warrants" from the Company as commission. Each Agent Warrant entitles the holder to acquire one common share at an exercise price of \$0.10 any time within 12 months of issue (note 12(c)).

On August 27, 2010, the Company issued 139,451,000 conventional units ("Conventional Units"), each consisting of one common share and one Warrant (a

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“Conventional Unit Warrant”), and 62,300,350 flow-through units (“Flow-Through Units”), each consisting of one flow-through share and one-half of one Warrant (each whole Warrant, a “Flow-Through Unit Warrant”). The gross proceeds of the offering were \$13,113,838. The Conventional Units and Flow-Through Units were priced at \$0.065 each. Each Conventional Unit Warrant entitles the holder to acquire one common share at a price of \$0.075 for a period of 48 months following the date of issue. Each Flow-Through Unit Warrant entitles the holder to acquire one common share at a price of \$0.08 at any time within 24 months of issue. The Company is required to incur \$3,987,222 of qualifying expenditures by December 31, 2011, and to renounce the expenditures to subscribers of the flow-through shares effective on or before December 31, 2010. The fair values assigned to the common shares, Conventional Unit Warrants, and Flow-Through Unit Warrants issued were \$8,901,481, \$3,453,072, and \$759,285, respectively.

In addition, agents received 12,105,081 Agent Warrants from the Company as commission. Each Agent Warrant entitles the holder to acquire one common share at an exercise price of \$0.075 any time within 48 months of issue (note 12(c)).

On December 10, 2009, the Company issued 3,000,000 common shares to Kaminak Gold Corporation to complete the purchase of the non-diamond rights to the Churchill Diamond Project and a related exploration dataset. The total purchase price of \$300,000, consisting of \$100,000 for the non-diamond rights and \$200,000 for the exploration dataset, was included in accounts payable and accrued liabilities at November 30, 2009.

In the nine months ended August 31, 2010, the Company renounced \$838,957 (2009 - \$2,617,707) of qualifying expenditures to holders of flow-through shares, resulting in a future income tax liability of \$209,739 (2009 - \$654,427) and a corresponding reduction of share capital. The Company has also recognized deductible temporary differences of \$209,739 in the nine months ended August 31, 2010 (2009 - \$654,427) which have been credited to income.

b) Stock options

The following table summarizes activity related to stock options:

	Number of options outstanding	Weighted average exercise price
Balance – November 30, 2009	4,060,000	\$ 0.54
Expired	(1,300,000)	0.40
Balance – August 31, 2010	2,760,000	\$ 0.60

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c) Warrants

The following table summarizes activity related to warrants:

	Number of Warrants	Weighted average exercise price
Balance – November 30, 2009	15,929,523	\$ 0.27
Issued	194,556,223	0.08
Expired	(2,132,245)	0.78
Balance – August 31, 2010	208,353,501	\$ 0.09

During the nine months ended August 31, 2010, the Company recorded share issue costs of \$497,115 relating to Agent Warrants issued in connection with private placements (note 12(a)). The Agent Warrants vested four months from the issue dates, and the fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Number of warrants issued	12,750,695
Weighted average fair value per warrant issued	\$ 0.04
Weighted average assumptions:	
Risk-free rate	2.07%
Expected volatility	101.69%
Dividend yield	0.00%
Expected life	3.8 years

d) Contributed surplus

The following table summarizes activity related to contributed surplus:

Balance – November 30, 2009	\$ 2,954,620
Value allocated to Warrants, FT Warrants, Conventional Unit Warrants, and Flow-Through Warrants issued in private placements (note 12(a))	4,361,024
Value of Agent Warrants issued (note 12(c))	497,115
Balance – August 31, 2010	\$ 7,812,759

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13. Exploration expense

Nine months ended August 31, 2010						
	Northwest and Nunavut Territories			Liege, Alberta	Miskamowin, Manitoba	Total
	Churchill	Jericho Properties	Other			
Airborne geophysics	\$ -	\$ -	\$ 101,205	\$ -	\$ 425,479	\$ 526,684
Purchased exploration data (note 5)	-	500,000	-	-	-	500,000
Drilling	-	-	144,475	238,258	-	382,733
General exploration	19,576	5,429	206,179	43,397	38,315	312,896
Bulk sampling	94,650	-	-	-	-	94,650
Community consultations	8,960	-	14,533	-	219	23,712
Ground geophysics	-	-	19,903	-	-	19,903
Other	1,909	-	6,627	-	-	8,536
	125,095	505,429	492,922	281,655	464,013	1,869,114
Recovery of expenses	(93,088)	-	(386,755)	-	-	(479,843)
Exploration expense	\$ 32,007	\$ 505,429	\$ 106,167	\$ 281,655	\$ 464,013	\$ 1,389,271
Cumulative costs expensed (active properties)	\$ 20,017,332	\$ 505,429	\$ 2,582,287	\$ -	\$ 464,013	\$ 23,569,061

Nine months ended August 31, 2009					
	Northwest and Nunavut Territories			Alberta properties	Total
	Churchill	Afridi Lake	Other		
General exploration	96,117	15,657	22,751	3,276	\$ 137,861
Bulk sampling	27,478	-	-	-	27,478
Prospecting	11,025	-	-	-	11,025
Drilling	4,554	2,780	-	-	7,334
Ground geophysics	5,250	1,500	-	-	6,750
Sampling	5,538	-	-	-	5,538
	150,022	19,937	22,751	3,276	195,986
Write-off of operator recoveries	-	185,956	57,237	-	243,193
Exploration expense	\$ 150,022	\$ 205,893	\$ 79,988	\$ 3,276	\$ 439,179
Cumulative costs expensed (active properties)	\$ 19,673,251	\$ 2,190,455	\$ 385,153	\$ 353,967	\$ 22,602,826

Shear Minerals Ltd.

Notes to the Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2010
(unaudited)

14. Supplemental cash flow information

a) Net change in non-cash working capital

	Three months ended August 31, 2010		Nine months ended August 31, 2009	
Accounts receivable	\$	(95,678)	\$	(80,051)
Operator recoveries		(208,225)		86,153
Prepaid expenses		5,188		(8,769)
Accounts payable and accrued liabilities		235,797		31,264
Deposits from exploration partners		(96,623)		-
	\$	(159,541)	\$	28,597
			\$	(9,376)
			\$	(1,054,994)

Shear Minerals Ltd.

Notes to the Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2010
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b) Non-cash investing and financing activities

	Three months ended August 31, 2010		Nine months ended August 31, 2010	
	2010	2009	2010	2009
Fair value of Agent Warrants included in share issue costs (note 12(c))	\$ 484,203	\$ -	\$ 497,115	\$ 42,067
Transaction costs related to the Tahera Acquisition included in accounts payable and accrued liabilities	30,000	-	30,000	-
Shares issued for acquisition of mineral rights and related dataset (note 12(a))	-	-	300,000	-
Disposal of equipment to third party as settlement for outstanding accounts payable	-	-	25,170	-
Marketable securities received as payment for operator recoveries	-	53,490	-	53,490
Mineral property acquisition cost recoveries assigned to third party as payment for outstanding accounts payable	-	69,098	-	69,098

See note 5 for non-cash investing activities related to the Tahera Acquisition.

Shear Minerals Ltd.

Notes to the Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2010
(unaudited)

15. Related party transactions

Related party transactions in these financial statements are as follows:

- a) During the nine months ended August 31, 2010, the Company incurred fees of \$72,000 (2009 – \$62,000) to Encore Resources Inc., of which \$45,708 (2009 - \$27,275) was recorded as management fees and \$26,292 (2009 - \$34,725) was recorded as exploration expense. Encore Resources Inc. is a company in which a director of Shear has significant influence.
- b) Fees of \$30,000 were incurred in the nine months ended August 31, 2010 (2009 – nil) for consulting services provided by a director of Shear, of which was \$22,500 was recorded as management fees and \$7,500 was recorded as exploration expense.
- c) Shear incurred professional fees of \$52,690 during the nine months ended August 31, 2010 to a proprietorship controlled by an officer of Shear (2009 – \$52,860).
- d) During the nine months ended August 31, 2010, the Company recorded general and administrative expense of \$14,400 (2009 – nil) for use of the office facilities of Firestone Ventures Inc., a company in which a director and an officer of Shear have significant influence.
- e) During the nine months ended August 31, 2010, the Company incurred exploration expense of \$153,875 (2009 - nil) for services received from Lyncorp Drilling Services Inc., a company in which a director of Shear has significant influence.
- f) On December 24, 2009, the Company entered into an option agreement with Takara to acquire an interest in the Miskamowin Project in Manitoba (note 7(b)). Takara is a related party to Shear by virtue of common directors.

In the opinion of management, these fees are considered to be at fair value and are recorded at the exchange amount.

Shear Minerals Ltd.

Notes to the Interim Consolidated Financial Statements
For the three and nine months ended August 31, 2010
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The following balances with related parties are included in the financial statements:

	August 31, 2010	November 30, 2009
Amounts due from related parties included in accounts receivable:		
Takara	\$ 2,496	\$ -
Amounts due to related parties included in accounts payable and accrued liabilities:		
Encore Resources Inc.	\$ 84,893	\$ 28,846
Proprietorship controlled by an officer	55,324	24,728
Director of Shear	30,000	-
Lyncorp Drilling Services Inc.	12,459	-
Firestone Ventures Inc.	13,158	-
	\$ 195,834	\$ 53,574